

# Commonwealth of Kentucky Personnel Cabinet

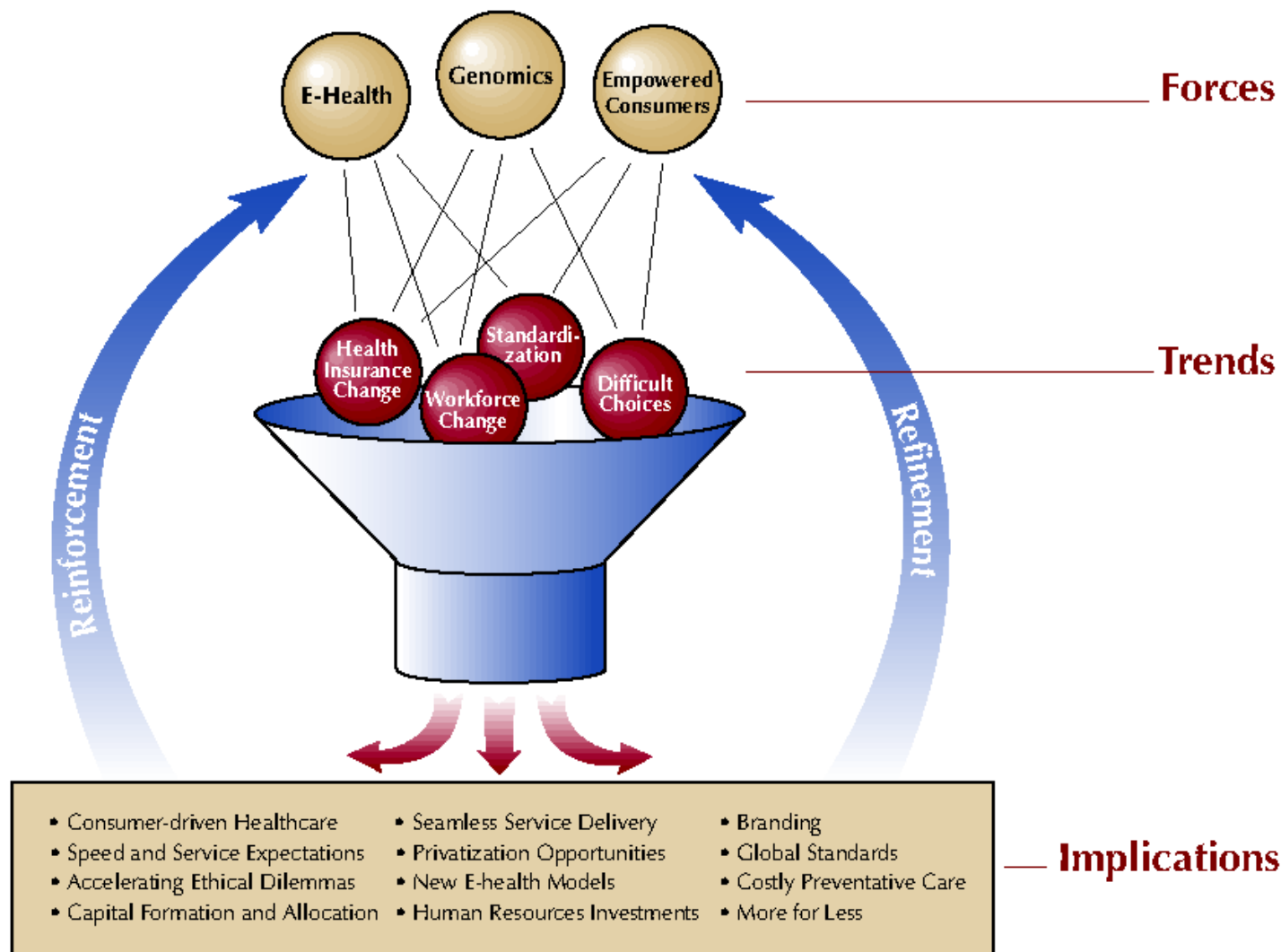
Overview of Health Care Benefits Cost Drivers  
Presentation to the Blue Ribbon Panel  
May 24, 2005



# Discussion Items

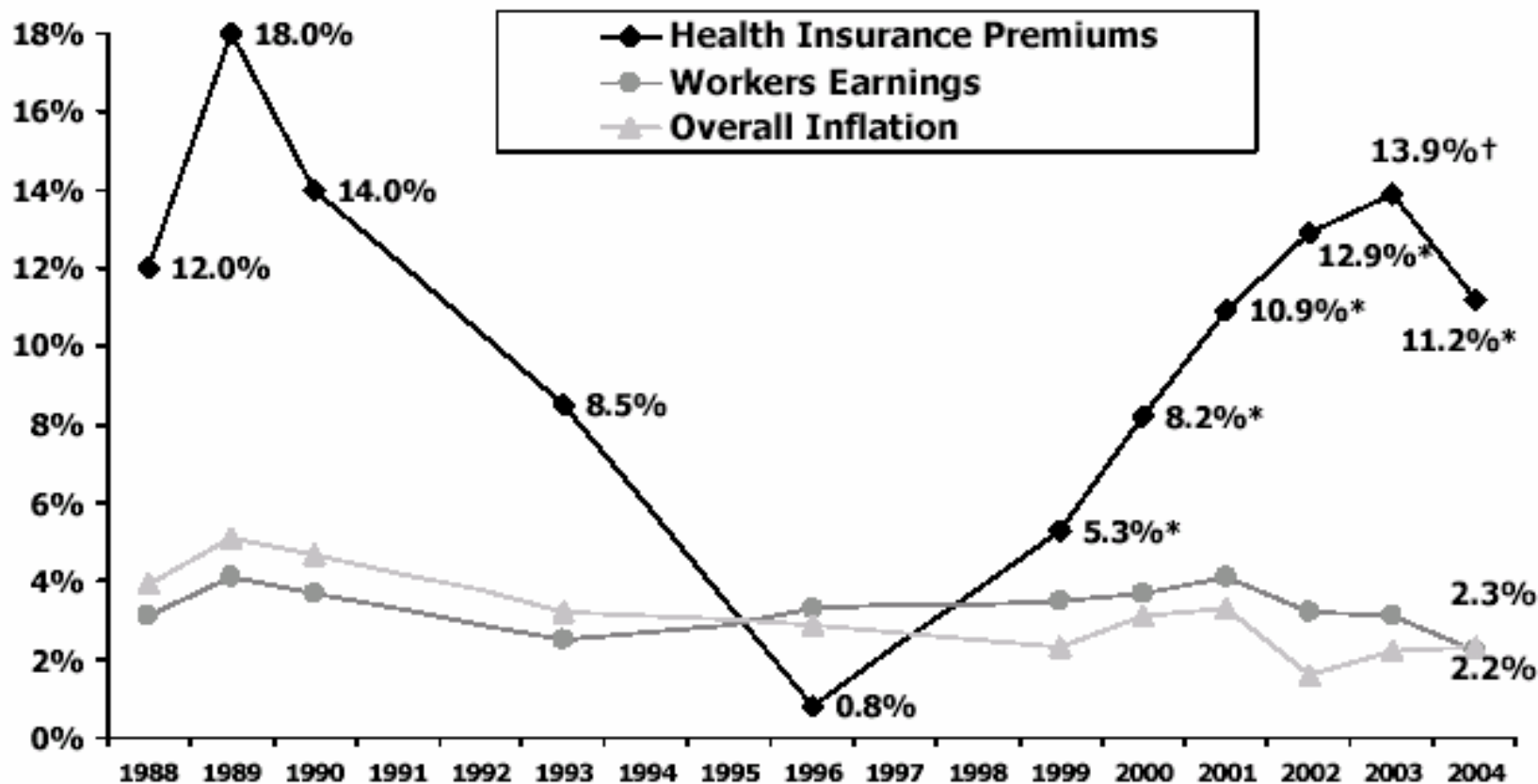
- **Key Health Care Cost Drivers**
- **Employer Strategies**
- **Public Employee Health Insurance Program Baseline Analysis**

# Key Health Care Cost Drivers – Global Impacts



# Key Health Care Cost Drivers - Trend

## Increases In Health Insurance Premiums Compared to Other Indicators, 1988-2004



Source: Kaiser Family Foundation, "Employer Health Benefits 2004 Annual Survey"

# Components of Medical Trend

- Price Inflation



2% - 4%

- Cost-Shifting



2%

- Aging



2%

- Leveraging



1%

- Malpractice



2%

- Utilization & Technology



5% - 7%

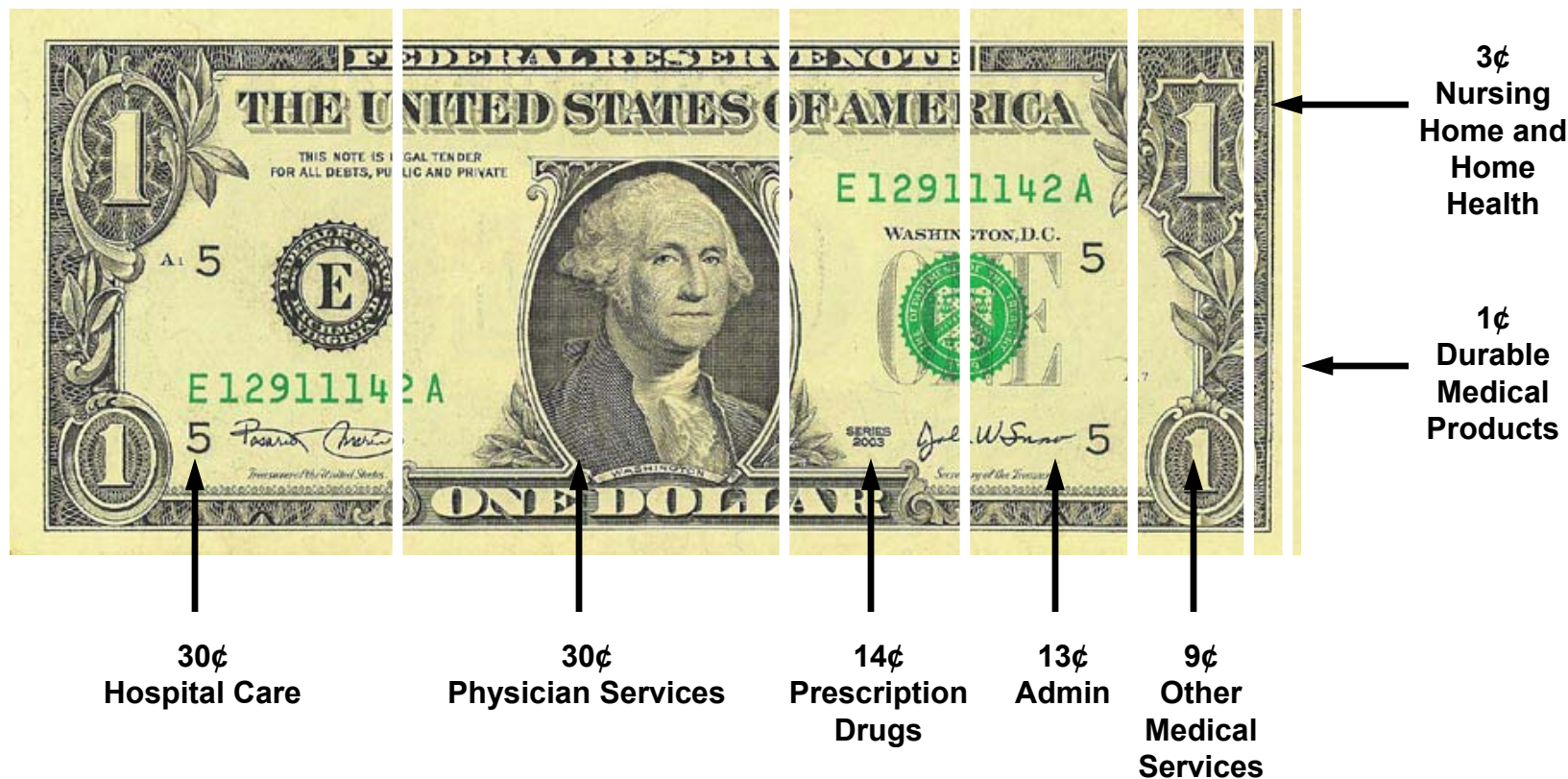
# Health Care Cost Drivers

- **Critical Service Specific Developments:**
  - **Outpatient costs are again the fastest growing component of cost increases.**
  - **Rising inpatient hospital costs are being driven by increased expenses per stay**
  - **Pharmaceutical costs are projected to account for 12% of all health care expenditures in 2005**
  - **Physician services are the slowest growing component of health care cost**



# Services as a Percent of Total Spend

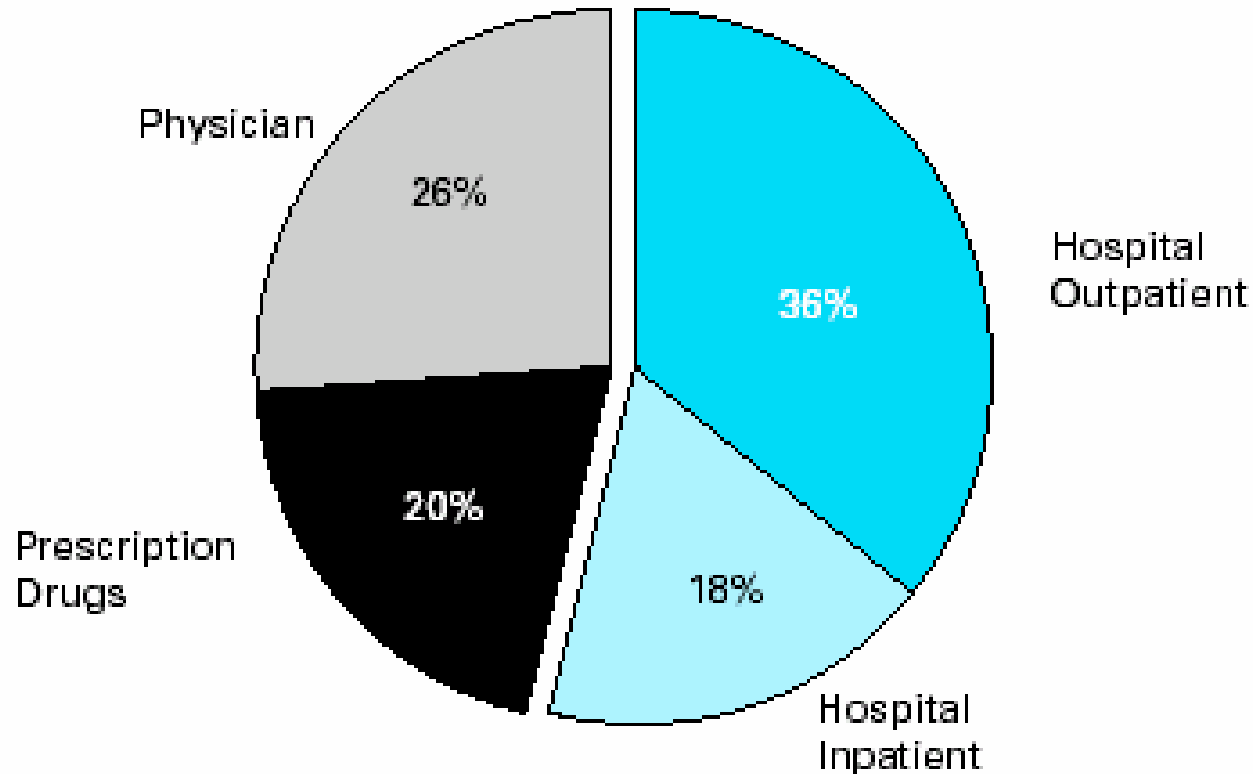
## Private Insurance Healthcare Dollar, 2002



Source: Adapted From Centers for Medicare and Medicaid Services, 2004

# Services Contribution to Increase in Cost

## Contributions to Private Insurance Spending Growth, 2003



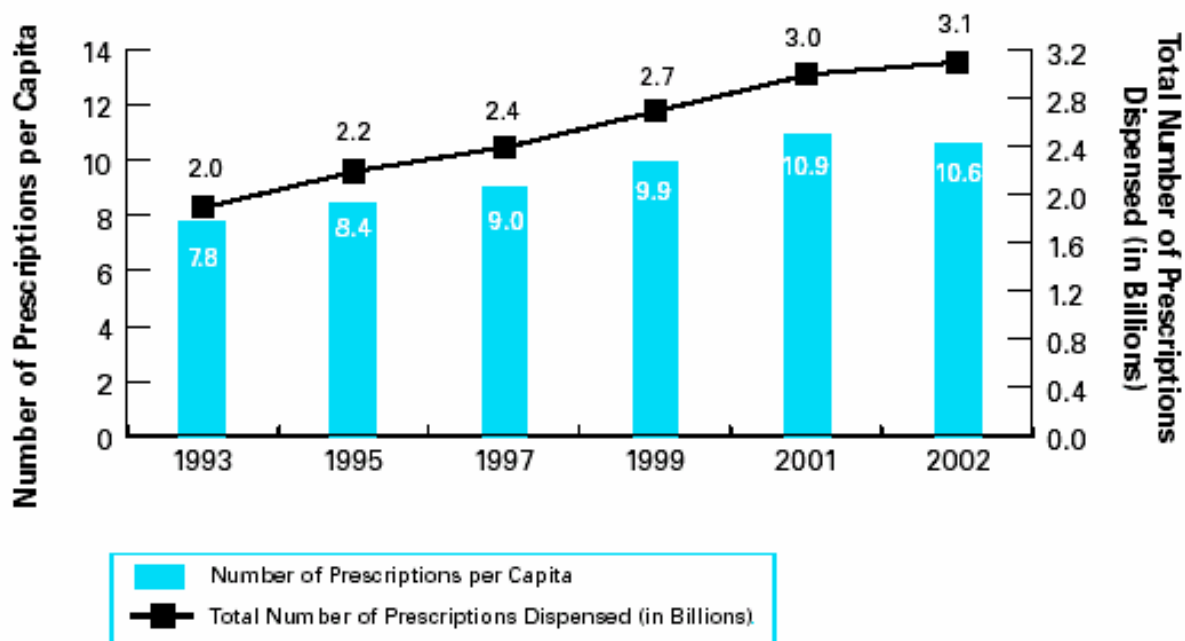
Source: Milliman USA Health Cost Index, as reported by Strunk and Ginsberg, 2004; and Bradley C. Strunk, personal communication July 20, 2004.



- Three factors drive increases in prescription drug costs:
  - Increased utilization
  - Price Inflation
  - Higher-cost drugs

# Pharmacy Utilization

## Prescriptions per Capita and Total Prescriptions Dispensed



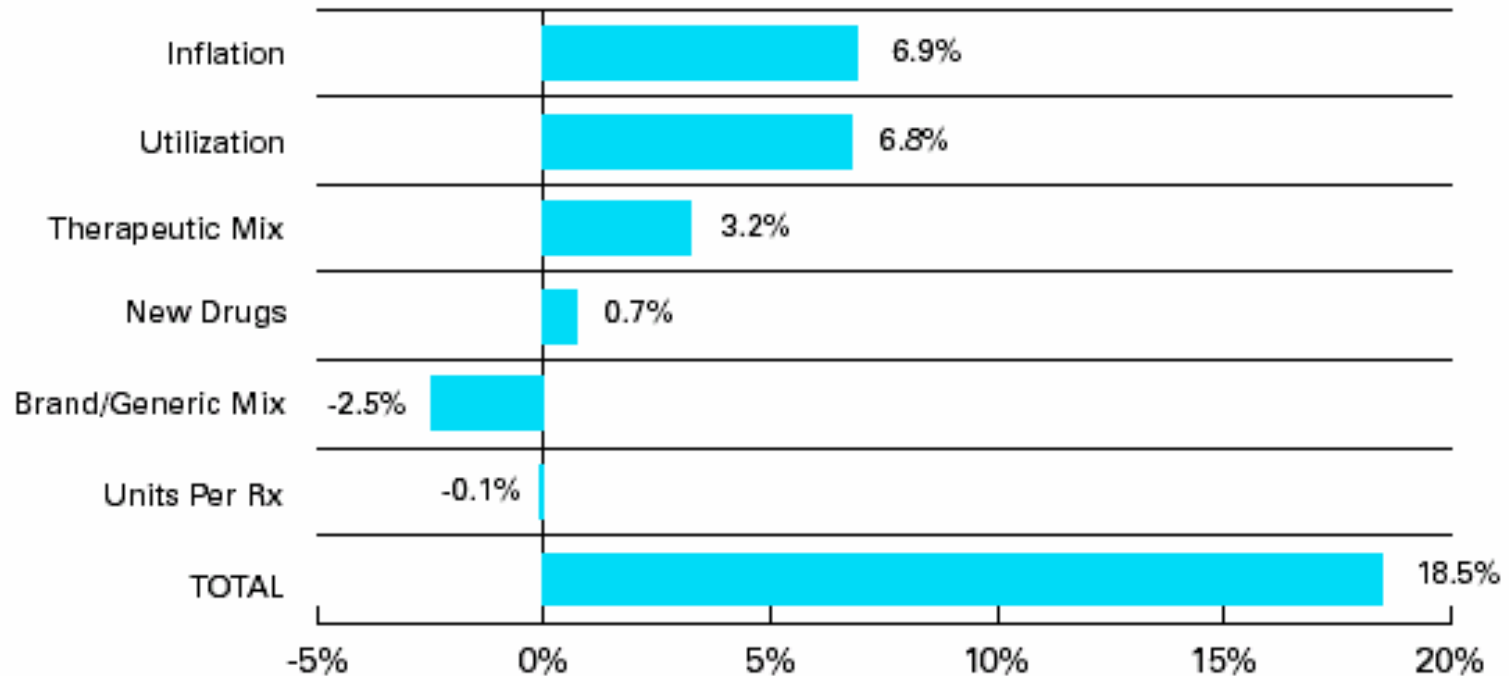
### Drivers of Drug Utilization Include:

- Promotional spending
- New medical guidelines
  - May call for more aggressive treatment of disease
- Outpatient setting
  - Drugs covered under pharmacy plan instead of medical plan
- Increased compliance
  - More convenient dosage, increased consumer awareness and fewer side effects
- Off-label usage

Source: Adapted from National Institute for Health Care Management, 2002;  
Verispan Scott-Levin 2003, as reported by Kaiser Family Foundation

# Pharmacy Cost Components

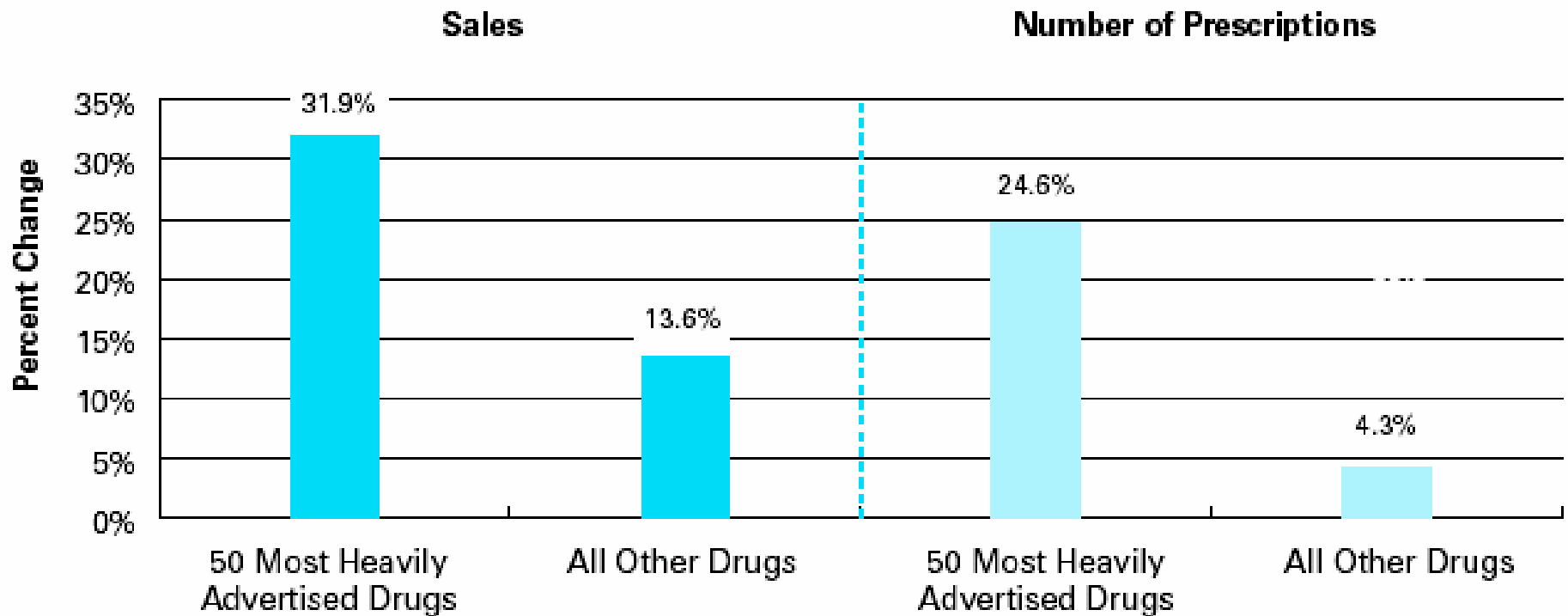
## Components of Prescription Drug Cost Trend PMPY, 2002 - 2003



Source: Express Scripts, 2004

# The Impact of Direct to Consumer Advertising

## Percent Change in Sales and Number of Prescriptions, 1999 - 2000



Source: National Institute for Health Care Management, 2001

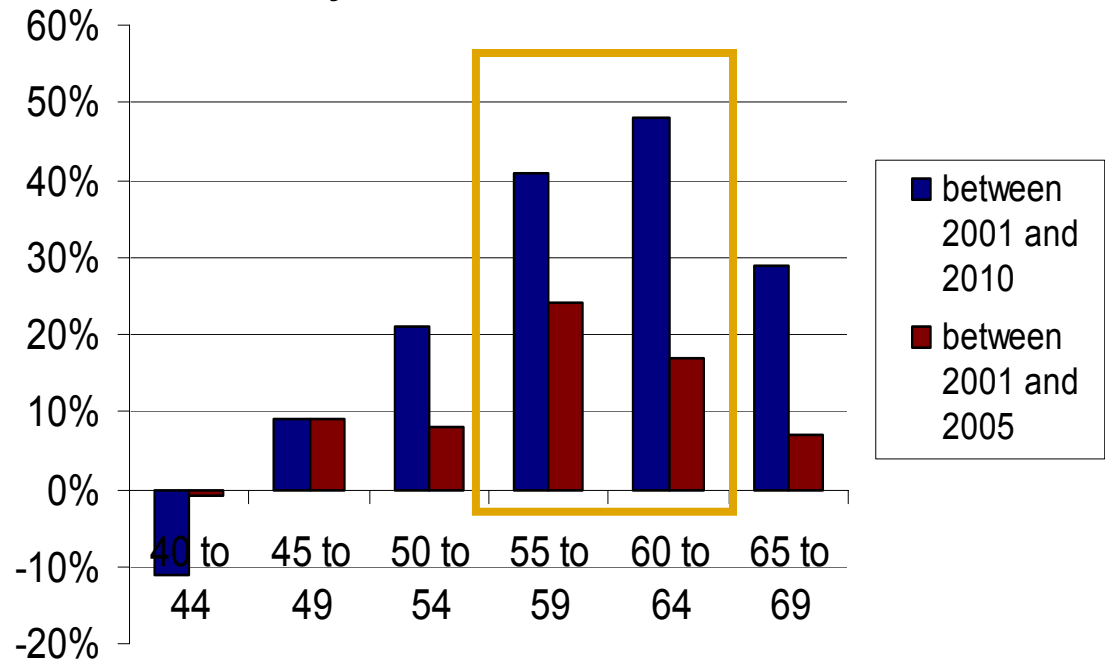
# Demographics and Lifestyle Issues Impact on Cost

- **Aging population**
- **Lifestyle/Behavior**

# Aging Population

- Aging is inflationary to medical expenses
- Consumers' expectations are heightened by marketing, Internet
- Male spending doubles in Baby-boomer years

The Baby Boom Bubble is Between 55 and 64





# Health Risks and Behaviors

## Health Risk Measure

## High Risk Criteria

**Alcohol**

**More than 14 drinks per week**

**Blood Pressure**

**Systolic > 139 or Diastolic > 89**

**Body Weight**

**BMI > 27.5**

**Cholesterol**

**Greater than 239 mg/dl**

**Existing Medical Problem**

**Heart, Cancer, Diabetes, Stroke**

**HDL**

**Less than 35 mg/dl**

**Illness Days**

**More than 5 days last year**

**Life Satisfaction**

**Partly or not satisfied**

**Perception of Health**

**Fair or poor**

**Physical Activity**

**Less than 1 time per week**

**Safety Belt Usage**

**Using less than 100% of time**

**Smoking**

**Current smoker**

**Stress**

**High**

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**Overall Risk Level**

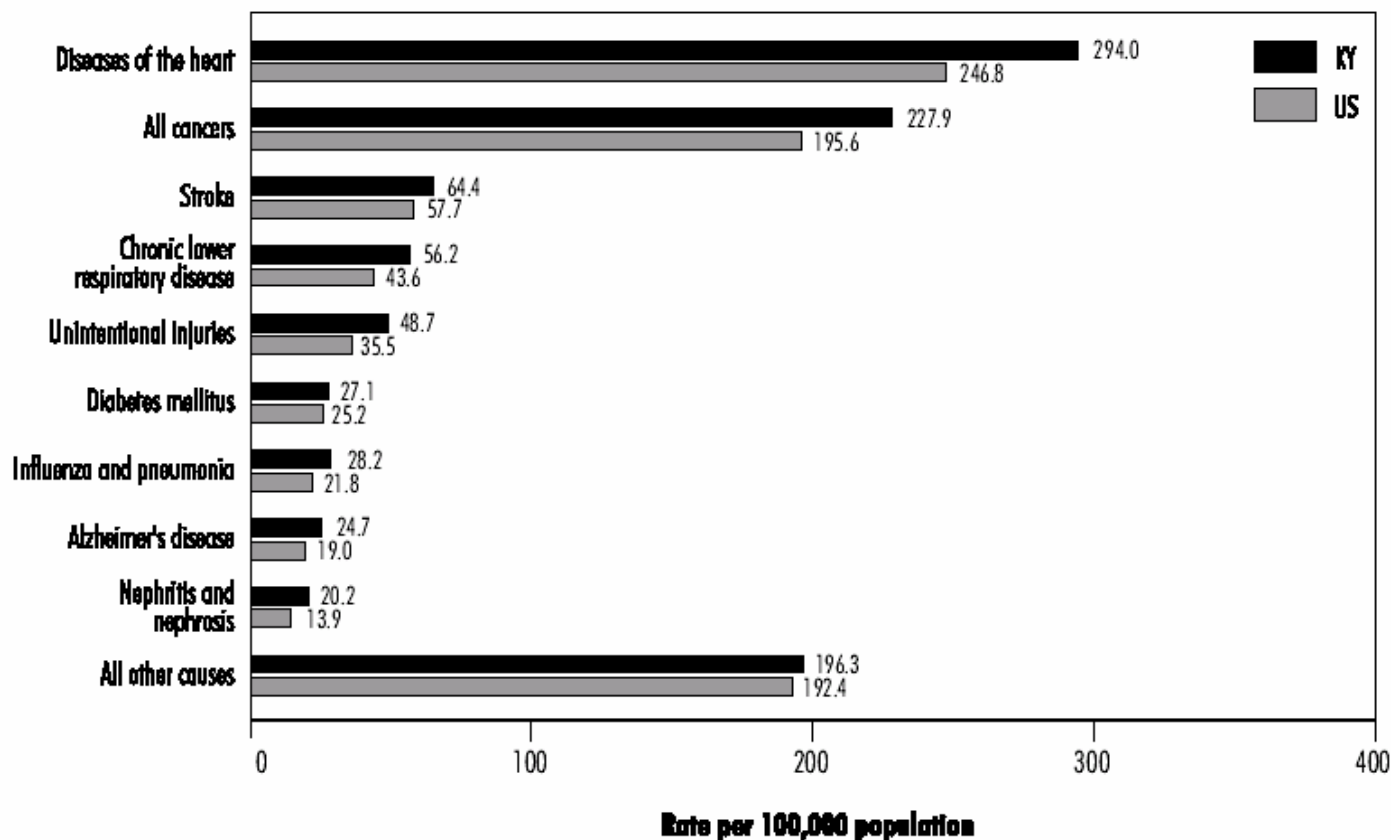
**Low 0 - 2**

**Medium 3 - 4**

**High 5+**

# Kentucky Health Indicators

## Causes of Death, Kentucky Compared with United States, 2001

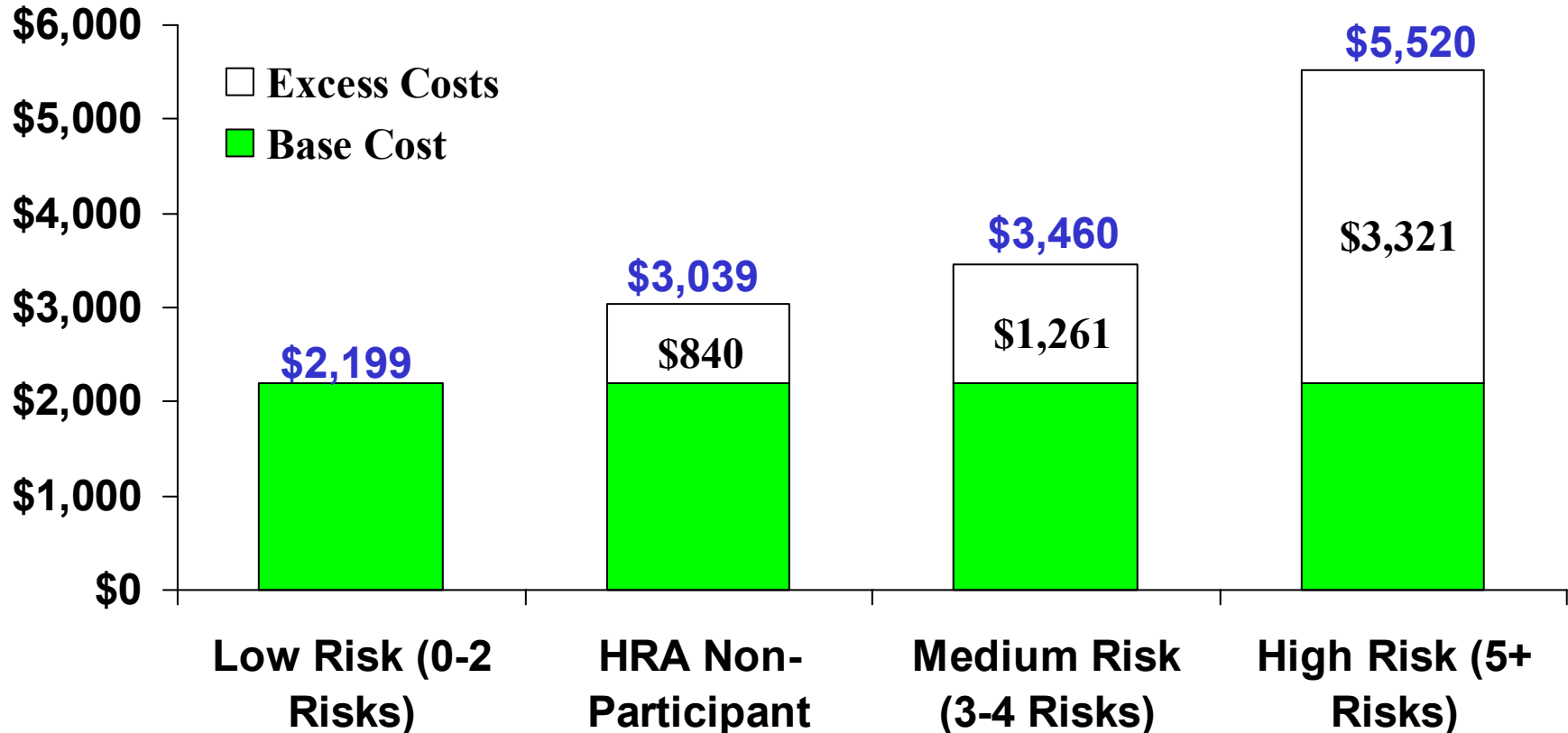


\*Deaths per 100,000, age adjusted to 2000 total U.S. population.

Source: CDC, 2004, "The Burden of Chronic Diseases and Their Risk Factors"

# The Cost of Excess Health Risks

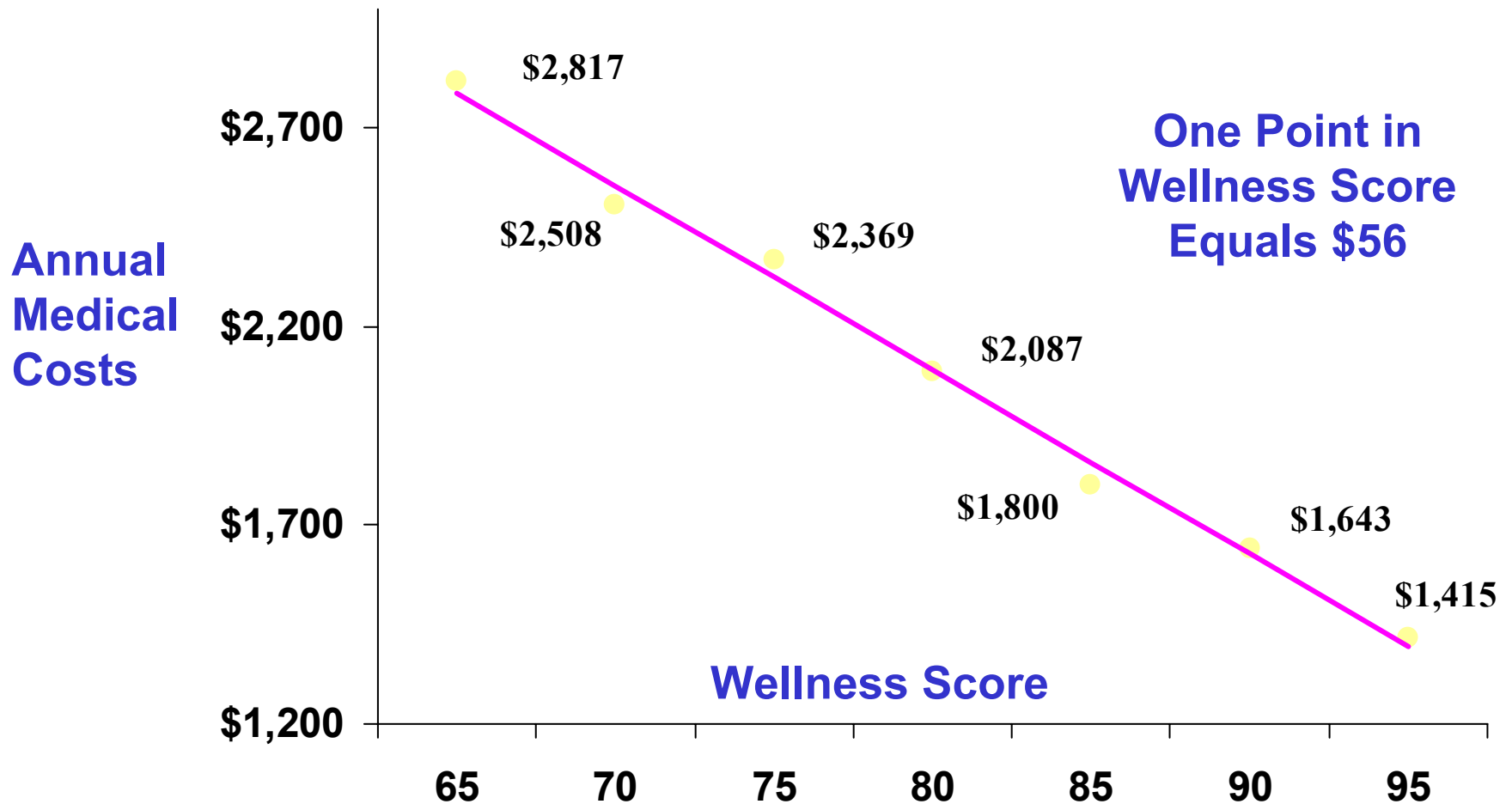
## Excess Medical Costs Due to Excess Risks



Source: Edington, AJHP 2001; 15(5):341-349

# Health Costs vs. Wellness Scores

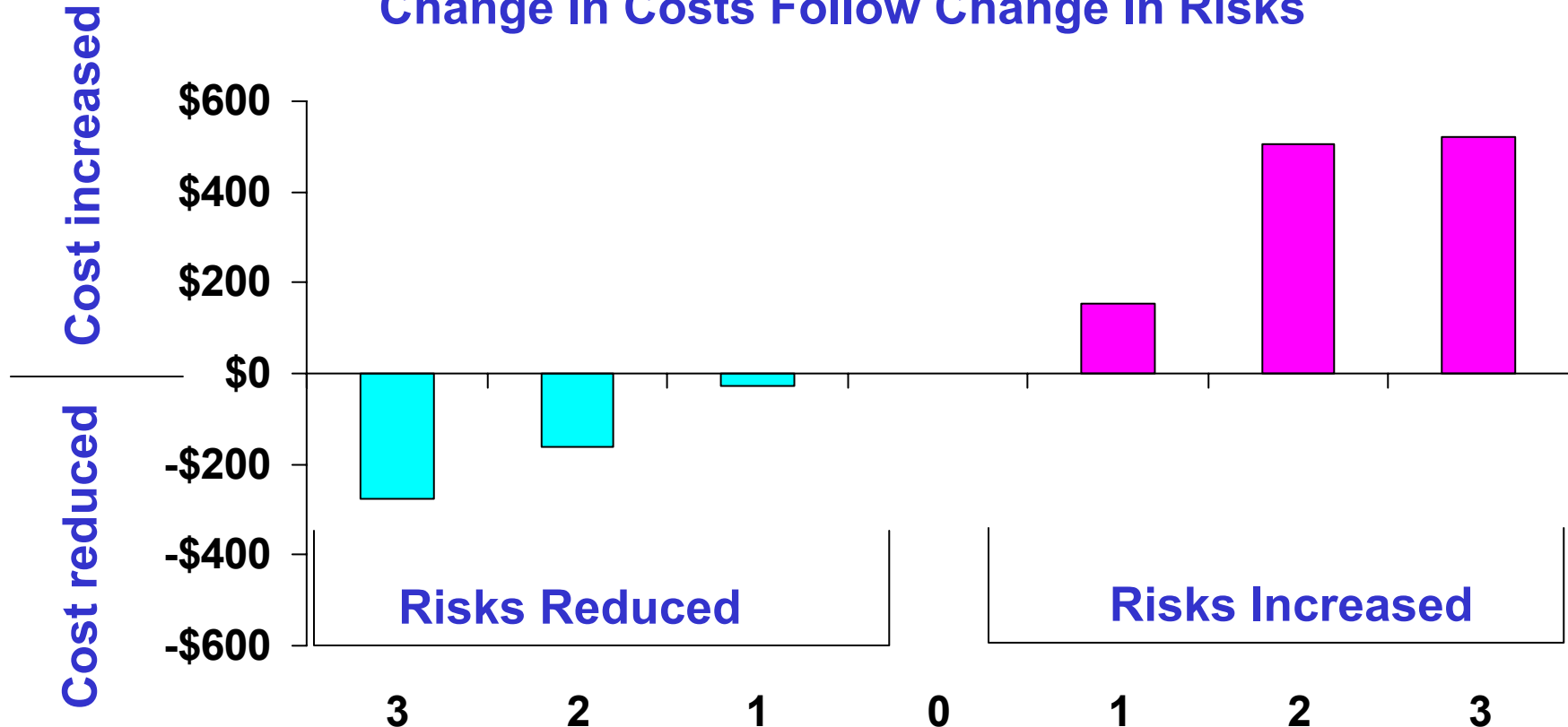
## Relationship Between Annual Health Costs & Wellness Scores



Source: Yen, McDonald, Hirschland, Edington. JOEM. 45(10):1049-1057, 2003.

# Costs Follow Risks

## Change In Costs Follow Change In Risks



Overall: Cost per risk reduced: \$215; Cost per risk avoided: \$304

Actives: Cost per risk reduced: \$231; Cost per risk avoided: \$320

Retirees<65: Cost per risk reduced: \$192; Cost per risk avoided: \$621

Retirees>65: Cost per risk reduced: \$214; Cost per risk avoided: \$264

Source: Updated from Edington, AJHP 2001; 15(5):341-349

# Employer Strategies - Traditional Approaches Have “Hit the Wall”

**Fear of further cost shifting to employees through plan design changes or employee contributions**

**Network management efforts focused on “discounts” with minimal impact on quality and process excellence**

**Medical management primarily focused on controlling hospital days, not patient advocacy**

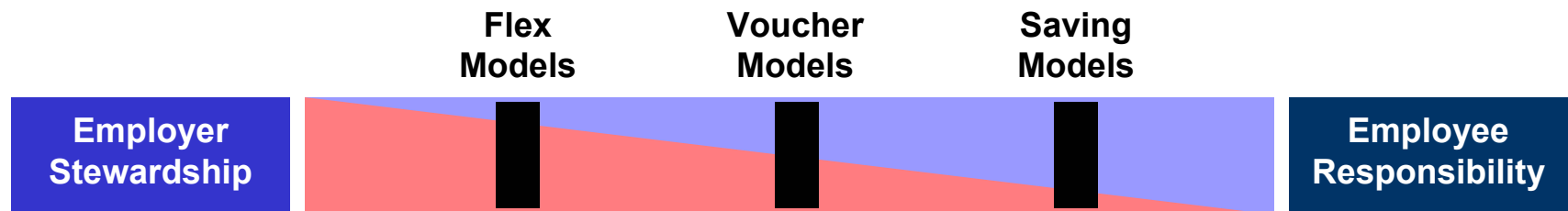
*We can't solve problems by using the same kind of thinking we used when we created them.*

Albert Einstein



# Employers Shift Cost Management Strategies

- Employers are moving away from use of more aggressive managed care as a cost management strategy
- Half of major employers have or plan to:
  - Use technology more to administer benefits and distribute health information (79%)
  - Increase consumerism (62%)
  - Provide decision support to employees (57%)
  - Add a high deductible plan (47%)



Source: Washington Business Group on Health Employer Survey

# PEHI Cost Driver Analysis

- **PEHI baseline analysis of cost and utilization is currently underway**
- **The methodology is data driven, focusing on PEHI specific experience**
- **The analysis will provide an understanding of current drivers and recommendations for improvement**

# PEHI Cost Driver Analysis

- **Areas of Focus:**
  - **Unit Costs for Services**
    - Hospital
    - Physician
    - Prescription Drugs
    - Ancillary
  - **Population**
    - Demographics (Retirees/Actives)
    - Health Status/Health Risk
    - Prevalence of chronic disease
    - Other
  - **Utilization**
    - Use of certain types of services – Emergency Room for example

# PEHI Cost Driver Analysis

- **Benefits Under Review:**
  - **Core Medical and Prescription Drug Plans**
  - **Specialty Areas**
    - **Prescription Drugs**
    - **Wellness**
    - **Disease management Programs**
  - **Voluntary Benefits**

# PEHI Cost Driver Analysis - Timing

- **In Process - Data analysis**
- **Week of June 13<sup>th</sup> Complete draft report**
- **Week of June 20<sup>th</sup> Present analysis to Personnel Cabinet**
- **Week of June 27<sup>th</sup> Deliver key metrics from report to Blue Ribbon Commission**